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FEEDBACK

Carrington Defends Its Servicing Practices as "Good for the Trusts and ... Homeowners"

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American Banker's recent article "A Servicer's Alleged Conflict Raises Doubts About 'Skin in the Game' Reforms" [Feb. 24] missed the mark or ignored the facts on several key points. A servicers' responsibility and obligation is to seek to maximize the proceeds to the entire trust on whose behalf it services loans, not to manage the duration of the investment for certain classes of investors. Carrington Holding Company, LLC, through its affiliates, Carrington Capital Management, LLC and Carrington Mortgage Services, LLC , has had a consistent, long-term strategy to do exactly that: maximize proceeds, not manage duration. It is a strategy that is consistent with the deal documents, good for the related trusts, and good for homeowners.

This long-term perspective and risk retention, the "skin-in-the-game" approach by which CCM structured securitizations, makes the alignment of interests between investors and homeowners possible. Without it, short-term investment motives and fee-based servicing structures incentivize fast foreclosures and fire-sale liquidations. While certain short investors, secondary market players making a short-term yield play and bond analysts may criticize Carrington's approach, the strategy has worked, and is now being proposed as a mechanism for reform and adopted by securitizations currently in the market.

The *American Banker* article missed several key points:

• Carrington's strategy has been consistent: maximize proceeds, not manage duration. Carrington holds the "first loss" bond on every deal it sponsored. It conducted extensive due diligence, approaching each securitization with an ownership perspective. Carrington also pioneered the concept of risk retention in residential mortgage-backed securities. Its transaction documents allowed and offering documents fully disclosed the deal structure, the right to direct the disposition of assets, and the potential conflicts this right may cause. The goal was clear: align interests and maximize proceeds over the long term.

Carrington's strategy during the housing crisis has been to avoid the fire-sale liquidations of properties at historic market lows (including by renting certain REO properties where it maximizes the net present value of proceeds to the trusts) and modifying loans for homeowners who are having financial difficulty, but have the intent and ability to remain in their homes and pay their mortgages.

• Carrington's approach seeks long-term returns. CMS's obligation as servicer is to seek to maximize proceeds to the related trusts over the life of the investment. This strategy may frustrate certain investors, including investors in the highest rated bonds, investors who bought on the secondary market at a discount looking for short-term returns and investors who took a short position (through credit default swaps or otherwise). *American Banker* quoted a finance professor stating that the deal analyzed in the article 'was a terrible pool of loans'.However, as occurred throughout the article, this does not tell the whole story. Obviously no subprime deal originated in 2005 performed to original expectations, but on a relative basis this deal has outperformed the vast majority of deals with similar collateral from that year. To date the Carrington deal has experienced fewer losses, lower loss severities, and fewer principal write downs for all rated classes of investors than the 20 deals included in the ABX 06-1. This data was provided to the *American Banker*, but ignored in its article.

• Carrington's modification track record is solid. CMS has modified loans for more than half of its customers, focusing on the intent and ability of borrowers to pay their mortgages. CMS's modifications have reduced payments by an average of more than 20 percent. In addition, as one of the first servicers to join the Home Affordable Modification Program , CMS has been a leader in its implementation, consistently outperforming participant averages.

CMS's HAMP and Non-HAMP loan modifications have a solid success rate. Since CMS began modifying loans in 2007 (HAMP did not begin until 2009), nearly 62 percent of CMS's modifications have resulted in at least three consecutive payments following the modification date. CMS also significantly outperforms the other HAMP participants, converting nearly 72 percent of HAMP modifications from trial to permanent (three consecutive payments) compared with the participant average of just 37

percent. (Again, data provided to *American Banker*, but ignored in its article).

Carrington's successful approach to modification is due, in part, to risk retention, which creates a greater ability to modify loans during periods of declining interest rates.

• Carrington's approach aligns incentives. Carrington was ahead of the industry in aligning interests through risk retention. The Administration's recent white paper regarding mortgage industry reform names risk retention as one of its key reforms, asserting: "The Administration is working with federal regulators to set rules requiring securitizers or originators to retain five percent of a security's credit risk when sold to investors... [t]his requirement will improve alignment of interests between mortgage originators, securitizers, and investors." In addition, providing the owner of the first loss piece with oversight rights similar to those held by Carrington since 2005 has been seen in a number of public and private deals out to market recently. Policymakers and the market are now clearly moving toward a model Carrington pioneered before the crisis.

There is no doubt that navigating the housing crisis and balancing the legitimate interests of investors, homeowners and policymakers has been difficult for companies in the mortgage industry, including Carrington. Carrington has sometimes been criticized for modifying too many loans, sometimes for modifying too few and sometimes for the way in which loans are modified. These criticisms have come primarily from those with their own financial interest. But again, let's be clear: Carrington's job is to maximize proceeds to the related trusts for all beneficiaries. That is exactly what Carrington's strategy has sought to do. It is an approach that has been consistent with the contract obligations, good for the trusts and good for homeowners.

It is a strategy we stand behind.

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